2463405

Contents

Directors and advisors

DIRECTORS	P Dewe-Mathews R Lywood R Baguley J Spiers
SECRETARY	M Osborne
HEAD OFFICE	North Heath Chieveley Berkshire, RG20 8UD
AUDITORS	Arthur Andersen 1 City Square Leeds, LS1 2AL
NOMINATED BROKER & NOMINATED ADVISOR	Peel, Hunt and Company Ltd 62 Threadneedle Street London, EC2R 8HP
BANKERS	Barclays Bank plc Pall Mall Corporate Group 50 Pall Mall London, SW1A 1QF
SOLICITORS	Dibb Lupton Alsop 125 London Wall London, EC2Y 5AE
REGISTERED OFFICE	Gossard House 7-8 Savile Row London, W1X 1AF
REGISTRARS	IRG plc Balfour House 390/398 High Road Ilford Essex, IG1 1NQ

Chairman's statement

Results
The loss after taxation for the year to 30 September 1998, including exceptional costs of £366,000, was £302,000. The exceptional costs related to an aborted acquisition to purchase a 660 bed nursing home group. The acquisition would have gone a long way to achieving our medium term objectives, however the Board decided that we could not complete the proposed transaction on terms that we could recommend to the shareholders. These costs had a significant adverse affect on our performance during the financial year under review.

The profit for the year before exceptional costs and taxation was £81,000 (1997 - £167,000). This reduction was mainly due to increased borrowing costs as a result of higher interest rates. Our average occupancy for the year to 30 September 1998 was 89.1% (1997 – 85.6%) which increased income. However, this improvement was off-set by higher agency staff costs due to a national shortage of nurses.

We have adopted in this year's accounts the new goodwill accounting standard FRS10, which is being implemented shortly. The new standard will not allow us to carry a negative reserve in respect of goodwill and we have, therefore, taken the opportunity to write off the goodwill reserve of £343,000 to the profit and loss account.

Dividends
The Board is not recommending a dividend for the year and will not do so until the company's realised negative reserves of £89,000 are eliminated.

Board
I welcome John Spiers, as a representative for our largest shareholder, who joined the Board on 22 September 1998. Roy Baguley is retiring with effect from 31 January 1999 and I would like to take this opportunity to thank him for his contribution to the company over the years.

Current Trading
I am pleased to report that the company has achieved overall occupancy rates in excess of 90% for the first quarter and profitability has improved, although we continue to suffer from high agency staff costs.

Future Prospects
The Board's main priority is to maximise the profitability of the existing portfolio of homes. However, the management structure and systems that we have established are capable of dealing with a much larger estate, which would result in useful economies of scale. Therefore, we continue to explore opportunities for expansion, notwithstanding the limited scope for raising additional funds at present.

Peter Dewe-Mathews

Chairman
29 January 1999

Directors' report

For the year ended 30 September 1998

Financial Statements

The directors present their report and the audited financial statements for the year ended 30 September 1998.

Principal activities and review of the business

The principal activity of the company is the owning and managing of nursing homes. A review of the business is included in the Chairman's statement on page 3.

Results and dividends

The loss for the year after taxation amounted to £302,000. The directors are unable to recommend the payment of a dividend.

Substantial shareholders

At the date of this report, the company had been notified of the following interests of 3% or more in its issued share capital:

	Number of Ordinary Shares	Percentage of issued share capital
BEST Investment Limited	337,900	14.8%
P Dewe-Mathews	90,000	3.9%
R H Burchett	80,000	3.5%

Directors and directors' interests in shares

The directors who held office during the year and their interests in the shares of the company at 30 September 1998 were as follows:

	30 September 1998 Beneficial	30 September 1997 Beneficial
Peter Dewe-Mathews	90,000	90,000
Rupert Lywood	1	1
Roy Baguley	5,000	5,000
John Spiers (appointed 22 Sept 1998)	337,900	271,900

There are no non-beneficial shareholdings

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company and of the profit/loss of the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report
(continued)

Auditors' responsibilities
The auditors are required to form an opinion on the financial statements presented by the Directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires the auditors to report to the shareholders if the following requirements are not met:

- that the companies in the Group have maintained proper accounting records;
- that the financial statements are in agreement with the accounting records;
- that the Directors' emoluments and other transactions with Directors are properly disclosed in the financial statements ; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of the audit.

The Companies Act 1985 requires the auditors to report to shareholders if the matters covered in the directors' report are inconsistent with the financial statements.

Going concern
After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Corporate governance
As the group grows, the Directors intend that the Company should develop policies and procedures which reflect the Code of Best Practice as published by the Committee on the Financial Aspects of Corporate Governance commonly known as "the Cadbury Report", insofar as is appropriate for a Company of this size.

Policy on payments to suppliers
The Company's policy is to pay suppliers generally at the end of the month following that in which the supplier's invoice is received. This policy is made known to the staff who handle payments to suppliers and is made known to all suppliers on request. Trade creditors of the company at 30 September 1998 expressed in relation to the total amounts invoiced by suppliers for services during the year were equivalent to 42 days.

Year 2000
The directors have considered the impact of the millenium on the Group and plans are in place to ensure compliance.

Auditors

A resolution proposing that Arthur Andersen be re-appointed as auditors of the company will be put to the Annual General Meeting.

By Order of the Board

Mark Osborne
Secretary
29 January 1999

Auditors' report

To the members of Matrix Healthcare plc

We have audited the financial statements on pages 7 to 15 which have been prepared under the historical cost convention as modified by the revaluation of tangible fixed assets on the basis of the accounting policies set out on page 11.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 30 September 1998 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

1 City Square

Leeds LS1 2AL

29 January 1999

Group profit and loss account

For the year ended 30 September 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	2,951	2,139
Cost of sales		(2,246)	(1,589)
Gross profit		705	550
Administrative expenses		(383)	(268)
Exceptional items	4	(366)	-
Operating (loss)/profit	3	(44)	282
Other interest receivable and similar income	7	1	41
Interest payable and similar charges	7	(242)	(156)
(Loss)/profit on ordinary activities before taxation		(285)	167
Tax on profit on ordinary activities	8	(17)	(34)
(Loss)/profit on ordinary activities after taxation		(302)	133
Equity dividend	9	-	(136)
Retained loss for the year		(302)	(3)
(Loss)/earnings per share	10	(13.2)p	5.8p
Earnings per share excluding exceptional costs	10	2.8p	5.8p

Statement of total recognised gains and losses

For the year ended 30 September 1998

	1998 £000	1997 £000
(Loss)/profit for the financial year	(302)	133
Revaluation of fixed assets	-	252
Total (losses)/gains recognised during the year	(302)	385

The notes on pages 11 to 15 form an integral part of these financial statements

Group balance sheet

As at 30 September 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	11	5,298	5,300
		5,298	5,300
Current assets			
Stocks	13	14	9
Debtors	14	249	242
Cash at bank and in hand		2	168
		265	419
Creditors: amounts falling due within one year	15	(591)	(543)
Net current liabilities		(326)	(124)
Total assets less current liabilities		4,972	5,176
Creditors: amounts falling due after more than one year	16	(2,475)	(2,377)
Net assets		2,497	2,799
Capital and reserves			
Called up share capital	19	1,142	1,142
Share premium account	20	1,242	1,242
Revaluation reserve	20	513	513
Profit and loss account	20	(400)	(98)
Equity shareholders' funds		2,497	2,799

The financial statements on pages 7 to 15 were approved by the Board on 29 January 1999 and signed on its behalf by:

Peter Dewe-Mathews
Director

The notes on pages 11 to 15 form an integral part of these financial statements

Company balance sheet

As at 30 September 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	11	5,298	5,300
		5,298	5,300
Current assets			
Stocks	13	14	9
Debtors	14	330	323
Cash at bank and in hand		2	168
		346	500
Creditors: amounts falling due within one year	15	(672)	(624)
Net current liabilities		(326)	(124)
Total assets less current liabilities		4,972	5,176
Creditors: amounts falling due after more than one year	16	(2,475)	(2,377)
		2,497	2,799
Capital and reserves			
Called up share capital	19	1,142	1,142
Share premium account	20	1,242	1,242
Revaluation reserve	20	383	383
Profit and loss account	20	(270)	32
Equity shareholders' funds		2,497	2,799

The financial statements on pages 7 to 15 were approved by the Board on 29 January 1999 and signed on its behalf by:

Peter Dewe-Mathews
Director

The notes on pages 11 to 15 form an integral part of these financial statements

Group cashflow statement

For the year ended 30 September 1998

	Notes	1998 £'000	1997 £'000
Net cash inflow from operating activities	23	25	348
Return on investment and servicing of finance	24	(241)	(115)
Tax paid		(70)	(52)
Capital expenditure and financial investment	24	(79)	(78)
Acquisitions	24	-	(2,680)
Equity dividends paid		(68)	(137)
Cash outflow before financing		(433)	(2,714)
Financing			
Repayment of existing loans		(185)	(152)
Bank loans due beyond one year		350	1,703
Decrease in cash during the year		(268)	(1,163)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash during the year		(268)	(1,163)
Cash inflow from increase in debt		(165)	(1,551)
Movement in net debt during the year	25	(433)	(2,714)
Net debt at 1 October 1997	25	(2,399)	315
Net debt at 30 September 1998	25	(2,832)	(2,399)

Notes to the financial statements

For the year ended 30 September 1998

1 **Accounting policies**

The principal accounting policies of the group are set out below and have been applied consistently throughout the current and preceding year except for the policy with respect to goodwill as detailed below-

a) Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards.

Acquisitions are accounted for under the acquisition method of accounting. Where the fair value of the consideration exceeds the fair value of the separable net assets of the acquired business, the difference is treated as goodwill on acquisition and written off to reserves. Where the fair value of the separable net assets of the acquired business exceeds the fair value of the consideration, the difference is treated as a capital reserve on consolidation. In accordance with FRS 10, written off goodwill is realised as a loss against distributable reserves over the course of its useful economic life. The directors consider the useful economic life of the company goodwill to be 20 years.

b) Basis of consolidation

The group financial statements consolidate the financial statements of Matrix Healthcare plc and its subsidiary undertakings made up to 30 September each year.

c) Turnover

Turnover is exempt from value added tax and represents fees receivable from clients.

d) Tangible fixed assets and depreciation

Tangible assets are stated at cost or valuation plus any incidental costs of acquisition. Depreciation is provided on all assets other than freehold land at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold buildings	2%
Equipment and furnishings	10%

e) Stocks

Stocks are stated at the lower of cost or net realisable value. Cost is arrived at as purchase cost on a first in first out basis.

Net realisable value is based on estimated selling price.

f) Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

2. Segmental information

The directors regard the Group as carrying on one class of business being the provision of private nursing home facilities within the United Kingdom.

3. Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	1998 £'000	1997 £'000
Depreciation of tangible fixed assets		
- freehold properties	43	33
- equipment and furnishings	38	27
Auditors' remuneration		
- audit fee	18	18
- non audit services	4	6

4. Exceptional items

	1998	1997
Costs of aborted proposed acquisition	366	-

5. Directors

Directors' emoluments:

	1998	1997
- Chairman	25	25
- Other directors	14	14

Notes to the financial statements

(continued)

6. Employees

	1998 £'000	1997 £'000
(a) Employment costs		
Wages and salaries	1,687	1,155
Social security costs	104	72
	1,791	1,227

(b) Number of employees

The average number of whole time equivalent personnel employed by the Group (excluding directors) during the year was 198 (1997:156)

7. Interest

	1998 £'000	1997 £'000
(a) Interest receivable	1	41
(b) Interest payable On bank loans and overdrafts repayable wholly or partly in more than 5 years	242	156

8. Taxation

	1998 £'000	1997 £'000
UK Corporation Tax at 21% (1997:23.5%)	12	43
Deferred taxation	5	(9)
	17	34

9. Dividend

	1998 £'000	1997 £'000
Interim dividend of Nil (1997:3.0p) net per ordinary share - paid	-	68
Final dividend of Nil (1997:3.0p) net per ordinary share - proposed	-	68
	-	136

10. Loss/earnings per share

(a) Earnings per share have been calculated by dividing loss on ordinary activities after taxation of £302,000 (1997:profit of £133,000) by the weighted average number of shares in issue during the year of 2,283,422 (1997: 2,283,422).

(b) Earnings per share excluding exceptional costs have been calculated as above using profit before exceptional items and after taxation of £64,000 (1997: £133,000).

11. Tangible fixed assets

	Freehold land and buildings £'000	Equipment and furnishings £'000	Total £'000
Group and Company			
Cost/Valuation			
1st October 1997	4,933	370	5,303
Additions	8	71	79
30th September 1998	4,941	441	5,382
Depreciation			
1st October 1997	-	3	3
Charge for the year	43	38	81
30th September 1998	43	41	84
Net book value			
30th September 1997	4,933	367	5,300
30th September 1998	4,898	400	5,298
Historical cost net book value			
30th September 1997	4,483	307	4,790
30th September 1998	4,448	340	4,788

Included in freehold land and buildings is land of £1,170,000 (1997:£1,170,000) which is not subject to a depreciation charge. Included in cost /valuation is equipment at cost of £102,000 (1997: £23,000).

Notes to the financial statements
(continued)

12. Fixed Asset Investments

The Group has the following non-trading subsidiary undertakings both of which are registered in England & Wales.

Name	Description of shares held	Proportion held
Barleyglow Ltd	Ordinary Shares	100%
The Knoll Nursing Home Ltd	Ordinary Shares	100%

13. Stocks

	1998	1997
	£'000	£'000
Group and Company		
Consumables and medical supplies	14	9

14. Debtors

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Trade debtors	173	146	173	146
Other debtors	15	23	15	23
Dividend receivable from subsidiary	-	-	51	51
Amounts owed by subsidiary undertakings	-	-	30	30
Advance corporation tax recoverable	18	36	18	36
Prepayments	43	37	43	37
	249	242	330	323

15. Creditors: Amounts falling due within one year

Bank loans and overdrafts	359	190	359	190
Trade creditors	73	68	73	68
Other taxes and social security costs	33	31	33	31
Accruals	113	103	113	103
Corporation tax	13	49	13	49
Advance corporation tax payable	-	34	-	34
Amounts owed to subsidiary undertakings	-	-	81	81
Proposed dividend	-	68	-	68
	591	543	672	624

16. Creditors: Amounts falling due after more than one year

	1998	1997
	£'000	£'000
Group and Company		
Bank loan (see note 17)	2,475	2,377

17. Bank Loans

Between one and two years	278	204
Between two and five years	936	696
In five years or more	1,261	1,477
	2,475	2,377
Within one year	257	190
	2,732	2,567

The bank loans and overdrafts are secured by fixed charges on the group's properties and floating charges over the assets of the group.

The interest rate on loans amounting to £1,333,000 (1997: £1,115,000) are 2% to 2.5% above LIBOR.
The interest rate on a loan amounting to £889,000 (1997: £923,000) is fixed at 9.24% until February 2002.
The interest rate on a loan amounting to £510,000 (1997: £529,000) is fixed at 9.31% until May 2002.

Notes to the financial statements
(continued)

18. Deferred Tax
Provided

	1998 £'000	1997 £'000
Group and Company		
Accelerated capital allowances	5	-
Advance corporation tax available for off set	(5)	-
	-	-
Deferred tax not provided at 20% (1997: 30%)	25	29

19. Called up Share Capital

		1998	1997
(a) Authorised 5,000,000 (1997:5,000,000) ordinary shares of 50p each		2,500	2,500
(b) Allotted and fully paid 2,283,422 (1997:2,283,422) ordinary shares of 50p each	1,142	1,142	

20. Reserves

	Share Premium Account £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
(a) Group:				
1 October 1997	1,242	513	(98)	1,657
Retained loss for year	-	-	(302)	(302)
30 September 1998	1,242	513	(400)	1,355
(b) Company:				
1 October 1997	1,242	383	32	1,657
Retained loss for year	-	-	(302)	(302)
30 September 1998	1,242	383	(270)	1,355

Distributable reserves of the company at 30 September 1998 are £(89,000).

21. Reconciliation of Shareholders Funds

	1998 £'000	1997 £'000
Opening shareholders' funds	2,799	2,610
Goodwill arising on acquisition of unincorporated businesses	-	(60)
(Loss)/Profit for the year	(302)	133
Dividends	-	(136)
Revaluation of tangible fixed assets	-	252
Closing shareholders' funds	2,497	2,799

22. Profit of Parent Company
The loss on ordinary activities after taxation dealt with in the financial statements of the parent company was £302,000 (1997:profit of £184,000). As permitted by the Companies Act 1985, a separate profit and loss account for the parent company has not been presented.

23. Reconciliation of operating (loss)/profit to operating cash flows

	1998 £'000	1997 £'000
Operating (loss)/profit	(44)	282
Depreciation	81	60
Increase in stocks	(5)	(4)
Increase in debtors	(24)	(102)
Increase in creditors	17	112
Net cash inflow from operating activities	25	348

Notes to the financial statements
(continued)

24. Analysis of cash flows for headings netted in the cashflow statement

	1998 £'000	1997 £'000
Returns on investments and servicing of finance		
Interest received	1	41
Interest paid	(242)	(156)
	(241)	(115)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	79	78
Acquisitions		
Acquisiton of unincorporated businesses	-	2,680

25. Analysis of net debt

	At 1 October 1997 £'000	Cash Flow £'000	At 30 September 1998 £'000
Cash at bank and in hand	(168)	166	(2)
Bank overdrafts	-	102	102
Bank loans due after one year	2,377	98	2,475
Bank loans due within one year	190	67	257
	2,399	433	2,832

26. Related Party Transactions

The company pays £4,200 per annum to Mrs P J Dewe-Mathews (the wife of P Dewe-Mathews) for rent of the company's head office.

During the year, £14,100 was paid to a company of which R Lywood is a Director for general financial advice.

Notice of the annual general meeting

Notice is hereby given that the annual general meeting of the Company will be held at Gossard House, 7/8 Savile Row, London W1X 1AF on 4 March 1999 at 11.30 am for the following purposes.

Ordinary Business

1 To receive and adopt the Directors' report and financial statements of the Company for the year ended 30 September 1998 together with the auditors' report thereon.

2 To re-appoint Arthur Andersen as auditors to the Company to hold office until the conclusion of the next general meeting before which accounts are laid, and to authorise the Directors to set their remuneration.

3 To re-appoint J Spiers as a Director.

By Order of the Board

Mark Osborne
Secretary

29 January 1999

Registered Office

Gossard House
7/8 Savile Row
London W1X 1AF

Note A person entitled to receive notice of, and attend and vote at the above meeting may appoint a proxy to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company. Forms of proxy must be deposited with the Company's Registrars, IRG plc at Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ not later than 48 hours before the time appointed for the meeting or adjourned meeting. Completion and return of the form of proxy will not prevent the holder from attending the meeting and voting in person should he wish to do so.

G&A Print (City) Limited